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SUBJECT: SCENESETTER FOR CODEL HASTERT

¶1. (SBU) Summary: Speaker Hastert, your delegation's upcoming visit to India on January 10-13 provides a significant opportunity to advance the burgeoning India/US relationship. After forty years of drift during the Cold War, the US and India are making up for lost time. Thanks to the energy and prosperity of two million Americans of Indian descent, as well as American industry's discovery of the advantages and opportunities inherent in partnering with Indian companies, the foundation for this partnership is stronger than ever. Microsoft, Cisco Systems, Intel, and others are doubling their investments in India because they realize that brainpower here is the natural resource necessary for the competitiveness of their companies. They also see India's market as one of growing importance.

Twenty million Indians are among the richest consumers in the world, while 200 million more consume like Americans; their appetite for American goods is largely untapped. As India's economy expands, hundreds of millions more consumers will seek imported US goods and services. As a result, we aim to double trade in just the next three years. The Government of India recently approved a \$10.5 billion, 68 aircraft Air India purchase from Boeing, the largest commercial aircraft order worldwide in 2005, and bringing to \$13.5 billion the orders Boeing has received from private and government-owned Indian carriers this year. New nonstop flights between the US and India are proliferating, and visa issuances to Indians have skyrocketed. India is now the leading non-US destination for NIH research grants, and the largest supplier of foreign students into US colleges and universities. Our militaries are moving ever closer together with sophisticated joint exercises, shared research and development, and possible important aircraft and other acquisitions that could create thousands of American jobs.

¶2. (SBU) India and the US are cooperating more closely than ever, with joint efforts to spread the culture and values of democracy throughout the world. More importantly, a cultural transformation is taking place here. America is now increasingly viewed by elites, the middle class, and the business community as India's natural strategic partner and a land of vast opportunity and potential. As reflected in India's effective response to the earthquake in Kashmir, and by free and fair elections there in 2003, the GOI today is enjoying an increasingly positive reputation among Kashmiris and is working hard to advance the Prime Minister's vision of an Indo-Pak relationship disentangled from old territorial disputes and focused on trade. Pakistan-based terrorism, however, remains a huge irritant between the two countries, and there are deeply worrying signs that Kashmiri terrorists are linking up with Pakistan-based transnational terror group Lashkar-e-Taiba to perpetrate attacks throughout India in a futile effort to weaken the Indian state.

¶3. (SBU) Domestic Problems also remain, as the UPA government of PM Manmohan Singh is facing internal, electoral, and coalition troubles as it manages an uneasy

partnership with leftists who remain deeply suspicious of the US and economic globalization even as the government seeks to advance a much-needed economic reform agenda.

¶14. (SBU) Overall trend lines are very positive, and India is a country experiencing new-found yet sustained dynamism that has breathed hope into the lives of all its citizens, even the most down-trodden. Your visit here can help address the concerns of some Indians about the expanding bilateral partnership with the United States even as you help us to educate Indians about the clear benefits of partnership with the US and the opportunities in the President's civil nuclear cooperation initiative. By and large, recent polls such as those by the PEW Research Center show that 70 percent of Indians view the US favorably, and increasingly share our language, culture, and values. A natural partnership that should have been forged in 1947 is finally taking flight today. Its creation will enhance American security and prosperity for decades to come.

Transforming US-India Bilateral Relations

¶15. (U) On July 18, the President and Prime Minister Singh announced a series of new initiatives aimed at upgrading the India/US relationship to a higher level. These included: a US-India Disaster Relief Initiative to contribute to disaster preparedness and future relief operations; the establishment of the US-India Trade Policy Forum to foster closer economic ties by recommending changes in the regulatory framework; a high-level private sector CEO forum to articulate business community views on key economic priorities; reaffirmation of the US-India Energy Dialogue to help ensure stability in global energy markets; an umbrella Science and Technology (S&T) agreement to strengthen the science and technology capabilities of the US and India, expand relations between their extensive scientific and technological communities, and promote technological and scientific cooperation in areas of mutual benefit; the launch of the US-India Information and Communications Technology Working Group; a US-India HIV/AIDS Private-Sector Corporate Initiative; a Global Democracy Initiative to Promote Democracy and Development; and a US-India Knowledge Initiative on Agricultural Education, Teaching, research, Service and Commercial Linkages.

¶16. (U) Since the July announcement, a wide variety of important visitors from both governments have worked to advance an ambitious agenda for transformation of the relationship. Representative Burton and Senator Allen have already led delegations to India in the last month, and we expect, in addition to yours, delegations led by Senators Baucus and Kerry in January. The President plans to visit India in late February or March of 2006 to see for himself the transformation in relations and push forward our broad agenda. The Prime Minister and other top Congress leaders are committed to this partnership and increasingly convinced that India's democratic future requires the closest possible collaboration with the US. Moreover, our knowledge-based economy's future will benefit from close collaboration with India's large reserves of human capital, half of who are under the age of 25.

¶17. (SBU) Your visit will also coincide with the largest US Army exercise with the Indian army to date. Exercise Yudh Abyas (Battle Practice in Hindi) will take place 13-28 January. A company, approximately 130 soldiers from the 25th Infantry Division in Hawaii, will take part in a training exercise in the foothills of the Himalayas in Northern India focusing on counter-insurgency tasks in semi-urban and semi-mountainous terrain. The US unit is using this training event as part of its training for a mid-2006 deployment to Iraq. In September, a company from the India Army will participate in a reciprocal event in Hawaii.

Civil-Nuclear Agreement

¶18. (SBU) A key US nonproliferation goal is implementation of

the July 18 US-India agreement on cooperation in India's civilian nuclear sector. When fully implemented, the agreement will greatly enhance Indian adherence to international non-proliferation norms and reduce global competition for, and consumption of, remaining fossil fuels. The agreement calls for India to fully separate its civilian and military nuclear programs and allow IAEA inspections and safeguards at its civilian nuclear reactors. Safeguarding India's large civilian nuclear industry will ensure that a large quantity of Indian reactors and their by-products will be subject to regular international inspection and will strengthen the global non-proliferation system.

¶19. (SBU) In return, India would receive assurances from the US that we would facilitate its efforts to modernize its civilian energy reactors to make them safer and to expand production. India seeks to have nuclear energy rise from three percent of current total energy production to 10 percent over the next 10 years. The civil-nuclear energy agreement could pave the way for US companies to play a major role in the sector's expansion here, which would in turn result in jobs back home, less Indian consumption of fossil fuels and less competition with the US for scarce resources such as oil and natural gas.

¶110. (SBU) Foreign Secretary Saran delivered the contours of India's separation plan to Under Secretary Burns in late December. Burns will pay a visit to India later in January to consult further with Saran on the details of that plan. Once we finalize the separation plan with India, we will continue consultations with Congress to seek its approval to alter legislation in order to allow the resumption of full US/India civil nuclear cooperation.

¶111. (SBU) We are hopeful as a result of our new non-proliferation partnership that the GOI will formally sign on to the Proliferation Security Initiative (PSI) soon as a reflection of the seriousness of its commitment to work with the US and its allies in combating the threat of proliferation. It would be helpful for you to mention the importance of India joining PSI in your public and private meetings.

Economic Reform

¶112. (U) The Indian economy is growing at seven percent per year, one of the fastest in the world. At the same time, the GOI recognizes the need for structural and regulatory changes to build market institutions, reduce the role of government in the economy, increase competition, and boost direct foreign investment. It is attempting to package reforms in a way that links market opening to the delivery of tangible social benefits to key constituents, especially the rural poor. A sustained growth rate of 7-8 percent will require India to achieve strong and sustained inflows of foreign capital, technology, goods and services (including training).

This makes the US -- as India's largest investor and trading partner -- an essential partner in the country's economic transformation, a fact not lost on Prime Minister Manmohan Singh, Deputy Planning Commission Chair Montek Singh Ahluwalia and Defense Minister Mukherjee, all economists by training.

¶113. (U) The UPA government has moved steadily on economic and commercial issues of importance to us: it has concluded an Open Skies civil aviation policy; strengthened its IPR regime; taken steps to resolve our bilateral trade/investment irritants such as the Dabhol electric plant, raised foreign direct investment limits in several sectors, and lowered tariff rates on goods in sectors of importance to our industry. On December 24, the GOI approved the purchase by Air India of 68 Boeing aircraft with a list price of about \$10.5 billion, making it the world's largest commercial airplane order during 2005 and bringing to \$13.5 billion the orders Boeing has received from Indian carriers this year. Aside from its huge commercial consequences) aircraft components are made in hundreds of factories across the US by

thousands of workers) the Boeing decision is an important political signal that reflects a GOI desire to make 2006 a year of clear and marked progress in our bilateral relationship.

¶14. (U) Nonetheless, significant challenges remain. India's infrastructure remains woefully underdeveloped, particularly in rural areas, where 60 percent of the labor force produces only 20 percent of India's GDP. We have publicly urged the GOI to:

- put infrastructural development on a war footing,
- reduce and redirect uneconomic power and other subsidies to health and education,
- open up areas of the economy where private investment is now restricted such as retail, real estate and food processing,
- liberalize financial markets, reduce government dominance in banking, liberalize India's pension industry and develop a long-term capital market to tap India's vast private savings.

¶15. (U) Treasury Secretary Snow and USTR Portman concluded very successful visits to India in November that should lead to significant advancement of a variety of key issues under the Financial and Economic Forum and the Trade Policy Forum (TPF), prior to the President's trip to India. At the conclusion of the TPF, Minister of Commerce Nath and Portman announced the goal of doubling US-India trade over the next three years. The Indian Government's message was that it was committed to reform, but through a gradualist approach. Our task is to prod the GOI to move toward a more accelerated pace of reform. We would welcome your help in this regard.

Indo-Pak Relations Hinge on Terror Waged Against India

¶16. (SBU) The Indians are very worried by the October 29 Delhi bombings and continued terrorist incidents in Kashmir and beyond. They are especially perturbed by reports that the December 28 shooting at the Indian Institute for Science in Bangalore bore the marks of a Pakistan-based Lashkar-e-Taiba terrorist group attack. Indian news media have said the attack reflects a shift in tactics by Pakistan-based terror groups as they move away from terrorism within Kashmir and focus more on the institutions and companies that have made the Indian IT sector such a powerhouse. Indian police are saying that the Lashkar,s southern India operational manager was involved, as well. If this allegation is verified, Indians already shocked by the October 29 bombing will have even more doubts about Pakistan,s sincerity in claiming to want peace.

¶17. (SBU) Nevertheless, Prime Minister Singh has pursued a sustained policy of rapprochement toward Pakistan because the vast majority of Indians seek normalization and free trade and travel with their western neighbor. India's aid to Pakistan following the earthquake reflects the PM's desire to try to keep moving ahead with Pakistan in several areas, including energy cooperation, trade, and people-to-people ties. The bus service between Srinagar and Muzaffarabad that began in April has been cited in the media and by contacts as the most visible example of the improving Indo-Pak relationship, but it remains suspended until roads and bridges can be repaired; other related positive moves are increasing cultural and sports exchanges and the opening of two additional bus routes between Indian and Pakistani Punjab and a rail link between Rajasthan and Sindh that should be operational this Spring.

Domestic Political View of India/US Relations

¶18. (SBU) The opposition National Democratic Alliance (NDA), consisting of the Bharatiya Janata Party (BJP) and its

regional party allies, remain deeply divided by ideological disputes despite the selection of a new party president. As a result, the United Progressive Alliance (UPA) coalition faces diminished pressure from the Hindu nationalist right wing. The UPA, which consists of the Congress Party and its regional allies, does not enjoy a ruling majority in Parliament, so coalition-management is key to its survival. Although it does not belong to the UPA, the Left Front (LF) of four Communist and Leftist parties keeps it in power by providing the necessary support of its 62 MP's, increasing the LF's stature and significance out of any proportion to its true level of popular support. Its support, however, can be more of a curse than a blessing for the UPA, and has made the Leftists the de facto opposition as a result of the BJP's disarray.

¶19. (SBU) Because of its ideological orientation, the LF has opposed some UPA economic liberalization policies and aspects of the improving US/India relationship, and denounced India's vote with the US on Iran's nuclear program in the IAEA on September 24 as evidence that the UPA has abandoned India's traditional non-alignment stance under US pressure. The LF has also demanded that India vote with Iran in future IAEA sessions or "face the consequences." However, the Left's bark is far worse than its bite. When the Left protested US-India air exercises at a military base outside Calcutta in November, journalists discovered that the modest crowd consisted mostly of clueless villagers who had been paid a day's wage to hold the red banner and chant slogans.

¶20. (SBU) The November resignation of Foreign Minister Natwar Singh due to alleged connections to the UN oil-for-food scandal roiled the political climate, allowing both the LF and the NDA to seize on charges of Iraq-related corruption within the Congress Party. However these developments have been largely superseded by a bribery scandal involving members of Parliament caught accepting bribes on hidden cameras. Most of the MP's involved were from the BJP, which has promised to expel them from the party.

¶21. (SBU) India's growing partnership with the US has created frictions inside and outside the ruling coalition. Several regional parties that either belong to the UPA coalition or support it have joined the LF to attack the government for staking too much on relations with the United States. Despite this opposition, however, key UPA leaders led by the PM himself have shown their determination to stay the course with the US. Moreover, political commentators increasingly complain that the Left's stance is unhelpful to India's strategic needs.

¶22. (SBU) The UPA's trump card is that, notwithstanding political parties' grumpiness, the vast majority of Indians enthusiastically support better ties with the US and enhanced Indian integration into the opportunities and risks of the global economy. Opposition by political parties to the UPA's foreign policies should be viewed through the prism of parochial opportunism, and not usually out of principled ideological opposition. Even the Left parties, who rely on Marxism to justify their positions, find that Chief Ministers of the states they govern (West Bengal and Kerala) aggressively court US and other foreign investors and seek to reform economic conditions.

A Challenging Political Season

¶23. (SBU) The Congress-led United Progressive Alliance (UPA) government has weathered recent assaults from its left and right, but critical on-going political events could undermine its stability, including its recent defeat in a key election in the large state of Bihar, and its stance in any future IAEA action on Iran. The BJP-led National Democratic Alliance attempted to use the November-December Parliamentary session to demand former Foreign Minister Singh and Congress Party President Sonia Gandhi's resignations in response to the oil-for food scandal. While Singh resigned from the

cabinet, the UPA effectively deflected further opposition assaults. In the final weeks of the session, televised revelations of blatant corruption by MP's, most from the BJP, shifted the focus away from the UPA. Despite this, the PM remains beset with managing a painful official investigation of his party's role in the oil-for-food scandal, preparing for a substantial reordering of Cabinet portfolios, and concerted opposition from the BJP. In addition, the Left Front (LF) has joined with regional parties in a "Left and Secular Alliance" that is increasingly combative and could grow more powerful. This matrix of impending political issues has energized the Left and right opposition and encouraged increasing criticism of Congress integrity as the party faces challenging elections in Kerala, West Bengal, Tamil Nadu and Assam and Pondicherry in 2006.

¶24. (SBU) You will first visit the state of Rajasthan, which is ruled by a BJP government headed by Chief Minister Vasundhara Raje. Once considered among the least developed of India's states, Rajasthan has made great strides in economic and social development under both Congress and BJP governments. CM Raje is highly regarded in Delhi, but her administration faces corruption allegations and a growing rebellion among some of the BJP rank and file, which has cut into her effectiveness. Our Deputy Chief of Mission, Bob Blake, will join you for your visit to Jaipur to brief your delegation and be available to answer any questions.

Iran

¶25. (SBU) India's large Muslim population and massive diaspora in the gulf region gives it an important stake in the international face-off over Iran's WMD ambitions. The GOI also hopes to use its relationship to cultivate Iran as a source of energy, a corridor for trade to Central Asia (most importantly to Afghanistan, to which Pakistan continues to deny India land-transit rights), and a partner in stabilizing Afghanistan. Past high-level exchanges and intensified cooperation in the energy sector illustrate that the GOI places value in this relationship. At the same time, firm Indian opposition to Iran's acquisition of nuclear weapons triggered the September vote against Iran in the IAEA that caused turbulence in Delhi's relations with Tehran and resulted in uproar in Parliament from left and right opposition parties and even from some within Congress. New Delhi hopes to pursue its Iran strategy without jeopardizing its growing ties with the US, but cannot countenance an Iranian nuclear weapon. New Delhi's ability to influence the new, hard-line regime in Tehran is being tested, as the controversy about Iran's nuclear program and President Ahmadinejad's vitriolic statements against Israel continue to boil and the GOI struggles with external and internal political pressure to avoid straining ties with Iran. The UPA was relieved that the Iran issue did not come to a vote in November at the IAEA because it did not want to court controversy prior to the winter session of parliament. If the civilian nuclear energy agreement with the United States goes through, we will have helped to dilute India's need for Iranian energy resources, although plans for an Iran-Pakistan-India gas pipeline continue to plod ahead. If we can convince Pakistan to allow India access across its territory to Pakistan, we will have weakened another reason why Delhi continues to manage a tightrope act between Washington and Tehran.

Conclusion - An Historic Opportunity for America

¶27. (SBU) Speaker Hastert, your delegation's program in India will give you an excellent view of developing India/US ties from the government, business and other perspectives. It is in both countries' common interest to work as partners to address the numerous pressing issues both in the region and around the world that lie ahead. We are developing cooperation and trust that will grow in the years to come. Your visit can serve to encourage key audiences of the value of developing a natural strategic partnership with the United

States. We appreciate very much your taking the time to visit India and look forward to ensuring an informative and productive visit for you and your delegation.

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